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SUBJECT: Lights Out in Energy-Rich Balkan Welayat

Ref: 2005 Ashgabat 1108

Summary

1. (SBU) During a January 30-February 1 visit to Balkan Welayat DCM witnessed some of the bureaucratic inefficiencies that make the Government of Turkmenistan a problematic business partner. Turkmenbashy, formerly Krasnovodsk, a hydrocarbon rich Houston of Central Asia, has been without water for ten days, and brownouts have caused the schools to operate on reduced hours with students in freezing non-heated classrooms for six hours a day. The situation is the same for energy-rich Balkanabat City (formerly Nebitdag). Nevertheless, Turkmenistan continues to export electricity to Iran, Afghanistan and other customers. Turkmenistan's oil and gas reserves are likely substantial, but without reliable data and with world-class inefficiencies on the ground, Turkmenistan remains a problematic trading partner. End Summary.

Mayor and Governor Prevaricate

2. (U) On January 20, DCM met with Mayor of Turkmenbashy City Ashyrniyaz Pomanov and on February 1 with Balkan Welayat Governor Tachberdi Tagyev. Though on the surface both were competent intelligent bureaucrats, Pomanov showed a curious lack of knowledge of the city's history -- he claimed the city was founded in 1891 (10 years after the battle of Goktepe and 12 years after official city records cite its establishment); and both outright lied about a number of current issues including energy outages ("there are none in Balkan Welayat"), pensions ("everyone's getting his/her full pension here"), and the destruction of Awaza holiday village ("it was just a slum anyway/the people will have a whole new complex"). In fact, local sources told us there has been no water for ten days in Turkmenbashy, schools were operating at reduced hours for lack of heat throughout the welayat, and children hardly could work at all in the freezing classrooms. Heating and water for residences also is out at least in Turkmenbashy and Balkanabat. In response to DCM's question, Pomanov said that he had gathered a group ("a couple hundred") of pensioners together with representatives of the Social Welfare Department and explained the "incorrectly calculated" pensions. Pomanov said this did not affect his city's citizens, however, because they all were on government salaries and their pensions had been correctly calculated. Tagyev concurred that the pension

"recalculation" did not affect Balkan Welayat's citizens. Local sources told us many city teachers' and other government employees' pensions had been cut and that the cuts were the main topic of conversation around the welayat.

13. (U) In response to reports that a major swathe of holiday dachas had been destroyed to make way for government-constructed holiday complexes, Pomanov said, "that depends on your definition of dacha, mostly what was out there was just trailers and junk, it was a slum." DCM drove to the community and witnessed a scene reminiscent of Bosnia after two years of war, an area consisting of approximately 10 square kilometers and thousands of homes was reduced to rubble. Owners/scavengers were driving away with what they could salvage -- bricks, window frames, doors, etc. Still obvious, though, was the quality and care of many of the dachas. Gardens, balconies, Greek columns, attractive architecture, etc., still were visible. Anyone in Turkmenistan who can afford a vacation goes to Turkmenbashy, and these dachas were their destination. Not only is income from these properties gone, but there will be no place to stay this summer except for the unaffordable and badly-serviced government-run Serdar and Turkmenbashy hotels. Pomanov himself said approximately 30,000 tourists visited Turkmenbashy every summer. In response to DCM's question about vacation opportunities for low to mid-income Turkmenistanis, Pomanov said, "if they save all year, they should be able to afford a week or two out here." DCM responded, if there were a few nice bed-and-breakfasts, the embassy would be frequent customers, but that neither the Serdar nor the Turkmenbashy had any appeal for western travelers. According to Tagyev, "the people needed new complexes," (Comment: yes, that's actually what he said.

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End Comment.)

14. (U) Referring to the upcoming local elections, Pomanov noted he was chairman of the welayat election committee, and said the etrap elections were scheduled for June; city elections were scheduled for December, he said, and conceded it was possible he could lose his seat. Pomanov said the local elections were a big step forward but did not go into further details. He did not respond to DCM's question about the possibility for multi-party elections but said every position would be contested by at least two candidates. Tagyev confirmed elections on the welayat level would take place in 2007 and that his position would be up for election; he ignored DCM's question about the possibility of multi-party elections.

15. (U) In response to DCM's question about unemployment, Pomanov admitted it was a problem, but insisted, "anyone who wants to work can find work." Pomanov said Turkmenbashy's population was 65,000, but said the population was growing because other provinces' workers were flocking to Turkmenbashy in search of low-paying jobs (vice unemployment) with international oil companies. Tagyev agreed with Pomanov's assessment and said that farmers from other welayats also were coming to Balkan to farm previously non-arable land. He noted that Balkan had met both the wheat and cotton quotas in 2005 and said mechanization, specifically Caterpillar and John Deere tractors, contributed to the welayat's success. Tagyev stated that the new law on State Agricultural Joint Stock Companies (Reftel: 2005 Ashgabat 1108) was perfectly understood and had contributed to the welayat's agricultural successes.

16. (U) According to Pomanov, approximately 40% of Turkmenbashy's population was non-ethnic Turkmen. He said "all who left wanted to leave," and said many of the remaining ethnic Russians, Armenians, Azeris, and Kazakhs had been in Turkmenbashy for three generations. In response to DCM's question about minority language education, Pomanov insisted Russians still could study in Russian and said there were Kazakh classes. But, he said, most "begged" to

learn Turkmen.

¶7. (U) In response to DCM's curiosity about President Niyazov's comments on tribalism during the January 12 events in commemoration of the Battle of Goktepe, in particular his appeal to the Teke to forgive the Yomut for their role in renting camels to the invading Tsarist troops, Pomanov said, "yes, I heard this speech," and after avoiding any discussion, his Mary Teke assistant said, "the president talked about this so people don't misinterpret what happened and hold it against the Yomut." Both Pomanov and his assistant laughed nervously when DCM pointed out that the mayor's office was decorated exclusively in Teke carpets, "our carpets are that much more precious and rare," was all they could offer.

#### Oil and Gas Officials Bullish on Turkmenistan

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¶8. (U) On January 30 DCM met with Turkmenbashy Oil Refinery Chief Amangeldy Pudakov and toured his massive complex; on January 31, she traveled to truly one of the world's least known "holidays in hell" Hazar (formerly Cheleken), home to the very profitable Dragon Oil and a dismal outpost of Soviet exploitation of Central Asia's resources; and on February 1 she met with TurkmenNebit State Concern Chief Garyagdy Tashliev.

¶9. (U) Pudakov's dissembling about attributing his lack of knowledge to being "new to the job" was notable in that he had been demoted from the position of Minister of Oil and Gas in September 2005, at which time he had been responsible for the production statistics of all of Turkmenistan's oil and gas industries. He could not tell DCM the complex's total revenue, refused to comment on the company's future plans and seemed greatly relieved to hand off DCM to a senior technician for a tour of the plant.

¶10. (U) The plant is truly impressive, covering a vast plot of land in the middle of town and comprised of facilities for refining oil into a multitude of products including liquefied natural gas, lube oils, gasoline, diesel, laundry

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detergent and polypropylene. The complex even included an electricity substation which supplied energy from excess oil products to the regional Turkmenbashy grid, which was then sold to Iran and Turkey. State of the art refining equipment included investment from Japan, Germany and France.

¶11. (U) In spite of his pedigree from Turkmen Polytechnical Institute, Pudakov's Russian was bad and he insisted on having the majority of DCM's questions translated into Turkmen.

¶12. (U) After a 3.5 hour drive from Turkmenbashy down a sand-swept road through a landscape devoid of any life, DCM arrived at the Dragon Oil Camp in Hazar. Dragon Oil Site Manager Abdel Hamid Bassiouni (Egyptian citizen) treated DCM to a gourmet's feast of shrimp and other delicacies imported from Dubai and provided her with a tour of Dragon Oil's facilities. Dragon Oil remains the most successful of Turkmenistan's foreign oil concerns. Bassiouni listened attentively to DCM's presentation about the possibility of renewed U.S. interest in investing in the hydrocarbon industry but offered little in the way of highlighting potential problems to investment, or more importantly, how Dragon Oil navigated the government.

¶13. (U) A Dragon Oil representative provided DCM with a tour of the neighboring neighborhood of Hazar, a formerly predominately Russian settlement established to supply the Soviet war effort during World War II. Hazar is a city-size dump of dilapidated Stalin-era public buildings and parks joined with abandoned uniquely Soviet-era rusted hulks of

industrialization. Garbage, rust and broken beer and vodka bottles are everywhere. The houses are straight out of some permafrost settlement and the cemeteries are full of Russian Orthodox crosses. If Dragon Oil or the GOTX has made any profit from the vast oil reserves off Hazar, the only economic rise in Hazar has been in the number of prostitutes living in Hazar to service the oil workers. (Note: during a previous embassy visit to Hazar, a Dragon official insisted: "these girls are not prostitutes, they just have sex for money." End note.) DCM passed a monument to the oil workers rising out of the rust with a plaque quoting Lenin saying, "let me know what's going on with Cheleken's oil and oil in general;" according to local wags, this was the only time Moscow paid any attention to Cheleken.

¶14. (U) In response to DCM's curiosity as to why Dragon Oil's successes had not translated into economic prosperity at least for Hazar but in general for Balkan Welayat, Tagyev responded, "we'll get there." TurkmenNebit Director Tashliev also noted that rehab of Hazar was in the grand plan, but that Hazar mostly had been a Russian community that had exported Turkmenistan's natural resources north, "and we have nothing to show for it," he said.

¶15. (U) Segueing into the future of Turkmenistan's hydrocarbons industry, Tashliev said, "eventually it will all be run and managed by Turkmen." According to Tasliev Turkmenistan only was willing to offer Production-Sharing Agreements to international companies off-shore, "nothing/nothing will be offered to foreign companies on-shore, we now can do all that ourselves." Tashliev did not see the contradiction in proclaiming Turkmenistan's ultimate aim to nationalize all GOTX's hydrocarbons while encouraging foreign investment. His eyes lit up, however, when DCM asked about Chinese involvement, "they're happy with a service agreement, vice a PSA, which we'll give them if they build a pipeline to China," and in terms of oil production in the Caspian, "certainly the Chinese are no worse than anyone else, we'd be happy to develop PSAs with them." In response to DCM's question about the feasibility of a Trans-Caspian Pipeline, Tashliev said, "Forget about it, our future is with Russia."

Comment  
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¶16. (SBU) The main focus of DCM's visit to Balkan Welayat was to keep the pressure on the GOTX to show the USG was watching its hydrocarbon industry. Not only is the industry inefficient and paranoid, but it is equally obvious that profits will not go toward improving the standard of living

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of Turkmenistan's citizens. End Comment.